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DEPT PASS TO USTR CLILIENFELD/AADLER
DEPT PASS TO TREASURY FOR OFFICE OF SOUTH ASIA MNUGENT
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN
STATE FOR SCA/INS AND EB/TRA JEFFREY HORWITZ AND TOM ENGLE
USDA PASS FAS/OCRA/RADLER/BEAN/CARVER/RIKER
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SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF JUNE 23 TO JUNE 27, 2008

¶11. (U) Below is a compilation of economic highlights from Embassy New Delhi for the week of June 23 to June 27, 2008, including the following:

-- RBI USING RESERVES TO STEM RUPEE DEPRECIATION
-- ANTI-MONEY LAUNDERING MANDATE FOR REGIONAL RURAL BANKS AND COOPERATIVE BANKS
-- INDIA SIGNS FOUR ECONOMIC AGREEMENTS WITH BURMA
-- INDIA-SINGAPORE CECA TO ADDRESS SERVICES NEXT
-- COMPETITION COMMISSION ACTING CHAIRMAN QUILTS
-- JET AIRWAYS LAUNCHES SERVICE TO SAN FRANCISCO
-- GOVERNMENT-SET PRICES SPUR FAKE PREMIUM GASOLINE SALES

RBI USING RESERVES TO STEM RUPEE DEPRECIATION

¶12. (U) According to the Reserve Bank of India's (RBI) weekly statistical supplement, India's foreign exchange reserves for the week ending June 13 declined the most since December 2005, falling by nearly \$5 billion to \$310.687 billion. The dip can be attributed mainly to the amount of intervention the RBI has done in the forex market by selling dollars to prevent the rupee from depreciating beyond Rs 43/dollar. Some of the change in foreign currency assets is because of changes in the value of the dollar against the euro, the yen, and other currencies during the period. Central Bank officials also attribute the decline to the special market operations conducted by the RBI for meeting the dollar-requirements of public sector oil companies, through the central bank's purchase of oil bonds.

¶13. (SBU) Comment: Stemming rupee depreciation helps counter inflationary pressures, since depreciation raises import prices in rupee terms, which get passed through to the domestic market. As the government continues to battle double-digit inflation, propping up the rupee (in the face of net FII outflows) is one of the most effective measures available to the government. End comment.

ANTI-MONEY LAUNDERING MANDATE FOR REGIONAL RURAL BANKS AND COOPERATIVE BANKS

¶14. (U) Under "Know Your Customer" (KYC) guidelines, the Reserve Bank

of India (RBI) this week announced that all regional rural banks (RRBs) and cooperative banks must report suspicious transactions above Rs 100,000 (\$23,529) to the Financial Intelligence Unit (FIU).

Similar guidelines for commercial banks were issued by RBI, as part of a regular process to update KYC guidelines and AML standards since February 2005, last month to combat anti-money laundering activities. The RBI has also asked these banks to prepare a profile of each customer based on risk perception and put in place appropriate software "to throw alerts when the transactions are inconsistent with risk categorization and updated profile of customers." Banks have been advised to pay special attention and verify all complex, unusually large transactions, including remittances to/from outside India and all irregular patterns of transactions having no apparent economic and lawful purposes. According to the Prevention of the Money Laundering Act (PMLA) 2002, these records need to be housed for at least 10 years. Where bank branches are not computerized, the bank's principal officer should cull out the transaction details and file the cash transaction report and suspicious transaction reports in an electronic form to the FIU. The RBI notification also requires that any transaction involving forged or counterfeit Indian currency notes be reported.

INDIA SIGNS FOUR ECONOMIC AGREEMENTS WITH BURMA

15. (U) The media report that India and Burma this week signed four economic cooperation agreements. The first agreement is the Bilateral Investment Promotion Agreement (BIPA) between the two governments designed to facilitate greater investment flows. The BIPA provides a framework for the resolution of disputes, for

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promotion and protection of investment, for extending national treatment and most-favored-nation (MFN) treatment, and for repatriation of investment. The second agreement is for a \$64 million credit line agreement for financing three transmission lines in Burma by the Power Grid Corporation of India. The third agreement is also a credit line for \$20 million for financing an infrastructure facility to be used for power distribution in Burma. The fourth agreement is between the United Bank of India and the Myanmar Economic Bank for providing a banking arrangement for the implementation of a border trade agreement between the two countries.

16. (U) GOI Minister of State for Commerce Jairam Ramesh, while suggesting the expansion of border trade centers, emphasized that India is in favor of "normal trade" at the border versus the current situation where border trade is restricted to 22 specified items, traded via the Manipur state-Burma border. India is lined up to develop a hydro electric power project in Burma, in addition to one each in Bhutan and Nepal. According to Ramesh, India's investment in this power project in Burma would bring significant benefits to both countries.

INDIA-SINGAPORE CECA TO NEXT ADDRESS SERVICES

17. (U) India and Singapore are working towards an agreement on services under the existing bilateral Comprehensive Economic Cooperation Agreement (CECA), enabling professionals to practice in each other's country. Commerce Ministry officials have reportedly said that this will be the first services agreement that India signs with any country, covering movement of personnel in professions like dentistry, architecture, nursing, medicine and accounting. The Indo-Singapore CECA was signed in 2005 and has three components -- a Free Trade Agreement in goods, a package to promote investment flows, and a double taxation avoidance treaty. The contemplated arrangement to boost trade in services would be the fourth and final step in the CECA. In addition, Commerce Minister Kamal Nath recently stated that a bilateral agreement on Intellectual Property Rights (IPR) cooperation will also be signed shortly.

18. (U) In Indian fiscal year (IFY) 2007-08 (up to February 2008), Singapore was India's 5th largest merchandise trade partner and 4th largest export market. India's exports to Singapore grew by 16

percent in IFY 2007-08, compared to 42 percent growth in imports from Singapore. Total bilateral trade during IFY 2006-07 was \$11.49 billion and has increased by almost 26 percent year-over-year, to \$13.42 billion in IFY 2007-08 (through February 2008). Major Indian exports to Singapore were: petroleum (crude & products), transport equipment, electronic goods, and non-ferrous metals. Major items of imported by India from Singapore were: electronic goods, petroleum (crude & products), organic chemicals, machinery (except electrical and electronic), and project goods. In terms of FDI, in FY07-8, Singapore emerged as the source of the second largest amount of FDI in that year after Mauritius. The top five sectors attracting FDI inflows from Singapore are: petroleum & natural gas, mining, services sector, construction activities, and power.

COMPETITION COMMISSION ACTING CHAIRMAN QUIT

¶ 9. (U) Last week, Vinod Dhall, Acting Chairman of the Competition Commission of India (CCI), announced his "early exit" or resignation four months before completion of his five-year term in October 2008. Dhall, a former Secretary at the Ministry of Corporate Affairs, led the CCI since its establishment in 2003 and played a critical role in establishing the commission's draft regulations, guidelines, merger notification forms and procedures, and inquiry and investigation manuals and India's national competition policy. As for possible successors to Dhall, media reports have suggested Pradeep Mehta, Secretary General of CUTS International.

JET AIRWAYS LAUNCHES SERVICE TO SAN FRANCISCO

¶ 10. (U) Mumbai Consul General attended the June 14 ceremony marking

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the inaugural Jet Airways flight from Mumbai to Shanghai and onward to San Francisco. Jet will operate daily flights on this route, featuring Boeing 777 aircraft configured with eight first class seats, 32 business class seats, and 272 economy class seats. The flights depart Mumbai at 11:00 AM and arrive in San Francisco at 6:00 PM local time. Jet Airways CEO Wolfgang Prock-Schauer told Consul General that bookings on this flight are already excellent, with flights for the first week already sold out. Prock-Schauer said demand for service to the U.S. west coast is high in Mumbai, and he believed the route would be very profitable for Jet since there is currently little competition on this route. He also noted that this flight will be the first direct flight from Mumbai to mainland China, and expected the first leg also to be popular for this reason. This new flight will be the private carrier's fourth daily departure from India to North America, following earlier launches over the past year to JFK Airport, Newark Airport, and Toronto Pearson International Airport.

¶ 11. (U) Jet Chief Commercial Officer Sudheer Raghavan told press reporters that with trade between India and China growing by more than 50 per cent last year to \$38 billion, the airline was looking to tap the rapidly expanding business traffic between the two countries. The airline is currently in talks with several Chinese air carriers, including China Eastern Airlines, Air China and Shanghai Airlines, to set up code share arrangements to other destinations in China, and also to the United States. Jet is also interested in offering future service to Beijing and Guangzhou, subject to the availability of air services rights. Raghavan said that the airline was not only aiming to fill the seats on the new flight with passengers flying between United States and India but is also hopeful of getting a mix of 30 percent of passenger traffic from China, India, and the United States.

GOVERNMENT-SET PRICES SPUR FAKE PREMIUM GASOLINE SALES

¶ 12. (SBU) Trying to remain profitable as fuel prices rise, many of Chennai's gas stations have ceased selling normal-grade gasoline, sold at a government-set price (about INR 55 per liter or USD 4.90 per gallon), to force motorists to pay for premium grades of petrol, which ranges from INR 2 to almost INR 40 per liter higher. An official from the Tamil Nadu Petroleum Dealers Association (which represents gas station owners) told Consulate Chennai that petroleum companies, attempting to recoup the higher costs they are paying

refiners, are selling gas stations normal-grade gasoline invoiced as premium. The gas stations, in turn, are then selling this fuel to consumers, priced as premium-grade petrol.

¶13. (SBU) A similar problem exists for diesel consumers. The managing director of a company that provides bus services to large companies told us that his company is finding it difficult to procure ordinary diesel, because his usual suppliers are selling only a premium version, making the cost of his operations unviable. He also said that some dealers are blending diesel with heavily-subsidized kerosene in a bid to cut their costs. Some Consulate staff report that they are unable to find ordinary diesel in Chennai.

¶14. (U) Visit New Delhi's Classified Website:
<http://www.state.sgov/p/sa/newdelhi>

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